



**Massachusetts Bay
Transportation Authority**

FY19 Operating Budget Discussion

March 5, 2018



Agenda

1. Overview

2. FY19 Budget Initiatives

3. Debt Service Update

4. Additional Considerations

5. Appendix: FY18 Savings Initiatives Update



FY19 Budget Timeline

- MARCH 5:** Budget Choices, including potential additional savings and investment
- MARCH 12:** Scheduled FMCB vote to release the Preliminary Budget to MBTA Advisory Board
- MARCH 15:** Preliminary Budget due to MBTA Advisory Board
- APRIL 9:** Scheduled FMCB vote to release the Approved Budget to MBTA Advisory Board
- APRIL 15:** Statutory deadline for FMCB to approve FY19 Budget



FY19 Budget Guiding Principles

- **Maintain fiscal discipline established with creation of FMCB (Jul15)**
 - › Continue to reduce reliance on annual appropriation
 - › Implement LEAN initiatives with a focus on productivity and efficiency
 - › Invest operating efficiencies/savings in “Pay-Go” Capital
- **Continue to grow own-source revenues**
 - › Optimize new parking and advertising partnerships
 - » Advertising: Outfront Media
 - » Parking: Republic Parking System
 - › Invest in Transit Oriented Development Projects
 - › Explore and expand current fare products including “Corporate Pass”
- **Optimize balance between Operating and Capital Budgets**
 - › Increase capital investment to reduce operating costs/maintenance
 - › Utilize CIP to project and prioritize State of Good Repair Spending
 - › Utilize technology and process investments to improve operating budget efficiencies



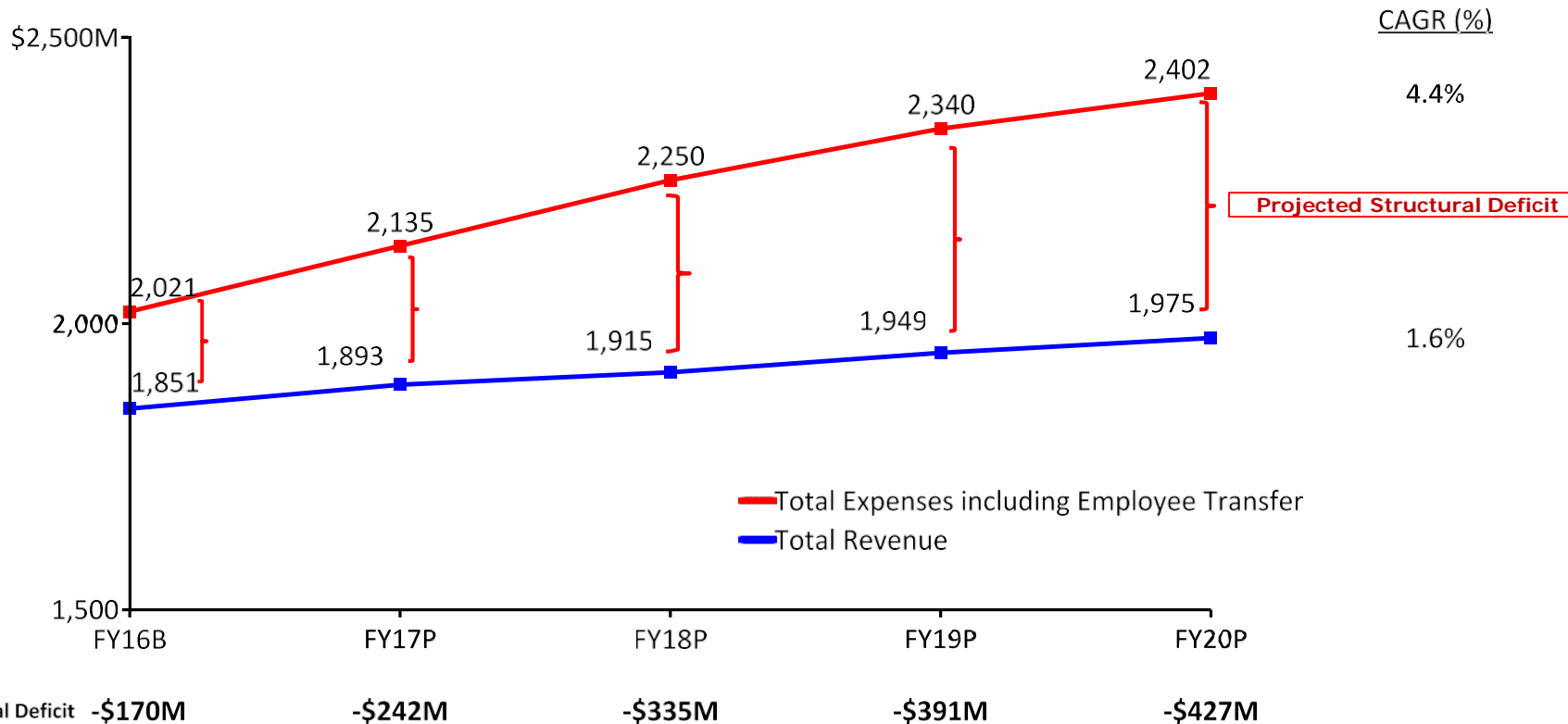
FY19 Budget Overview

- Annual operating budgeting process critical to MBTA strategic planning
 - Establish short-term priorities for upcoming fiscal year
- Focus on FMCB goal of keeping the annual operating expense growth rate less than the corresponding revenue growth rate
 - Goal achieved in FY16 & FY17; projected to achieve goal in FY18
- Build on the continuous improvement program (LEAN) launched in FY18, intended to drive lean and efficient operations
 - Set aggressive savings targets with that can be measured with financial and operational KPIs
- FY19 Additional State Assistance of Governor's budget consistent with FY18
 - Total Additional State Assistance of \$187M
 - › \$127M of operating budget support
 - › \$60M exclusively for "pay-go" capital projects



Without action, structural deficit was on track to reach \$427M by FY20

STATUS QUO FY17 PRO FORMA – 8.1.2015



Structural Deficit **-\$170M**
Includes Debt Service

-\$242M

-\$335M

-\$391M

-\$427M

Note: Structural deficit includes debt service and transferred capital employees annual expense; does not include Additional State Assistance

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FMCB Enabling Legislation

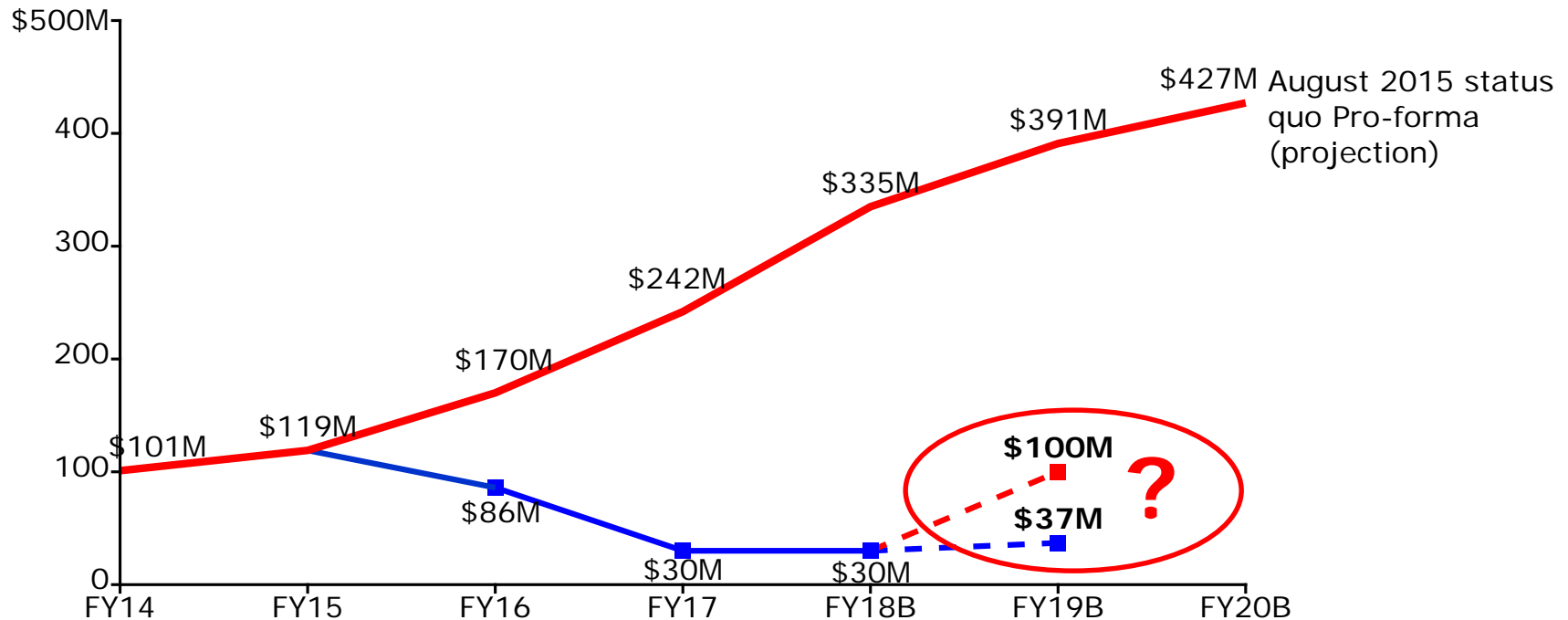
Under Section 203 of Chapter 46 of the Acts of 2015, the FMCB may:

“Establish 1- and 5-year operating budgets, beginning in fiscal year 2017, which are balanced primarily through a combination of internal cost controls and increased own-source revenues”



FY18 deficit \$305M below projections; \$600M of cumulative savings since creation of FMCB

Structural deficit

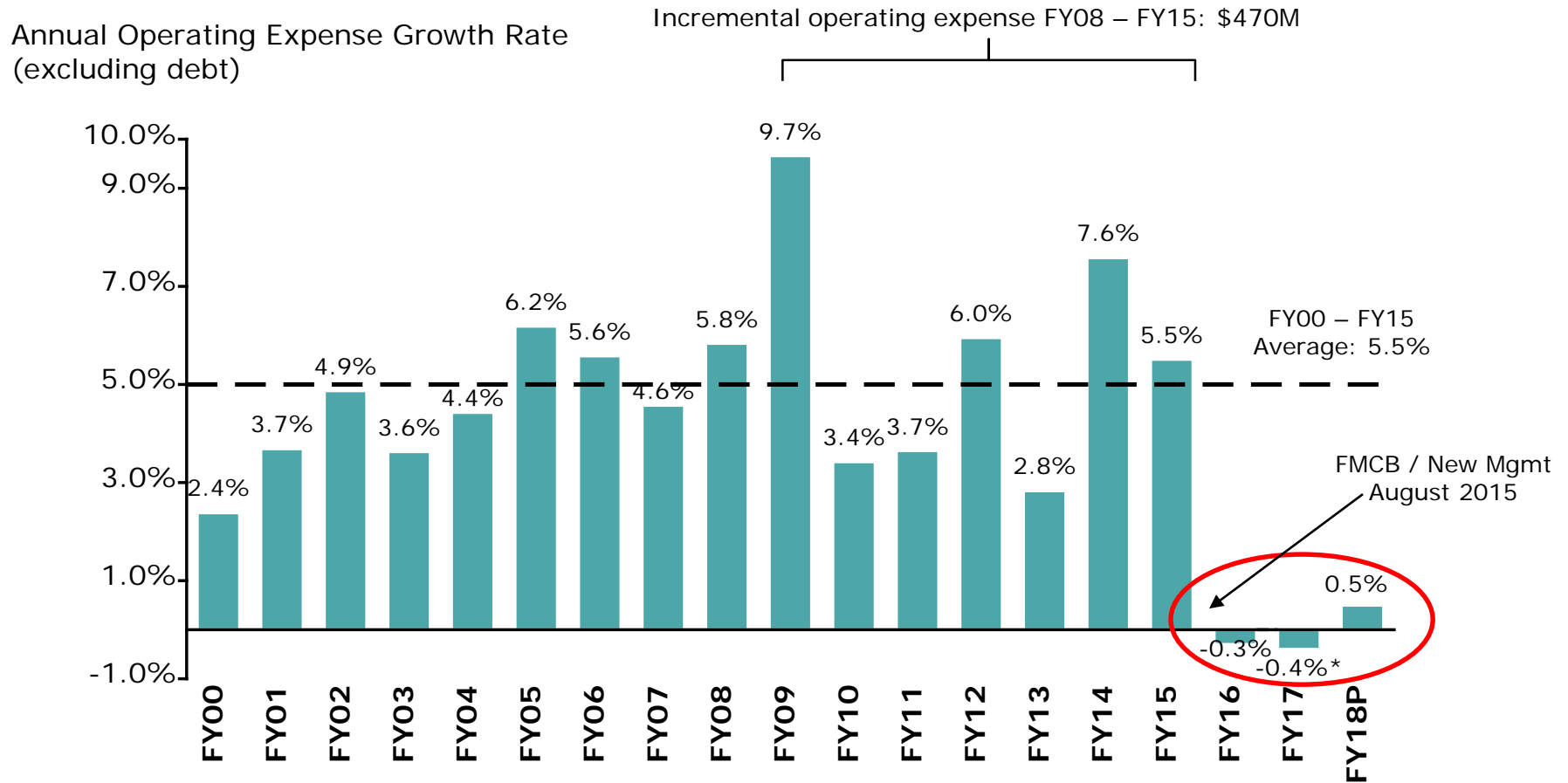


MBTA management in process of recasting FY18-FY20.

Operating Deficit does not include Additional State Assistance received in FY16 (\$155M), FY17 (\$140.25M) or FY18 Projections (\$127M)



Since FMCB, operating expense growth lowest in 15 years

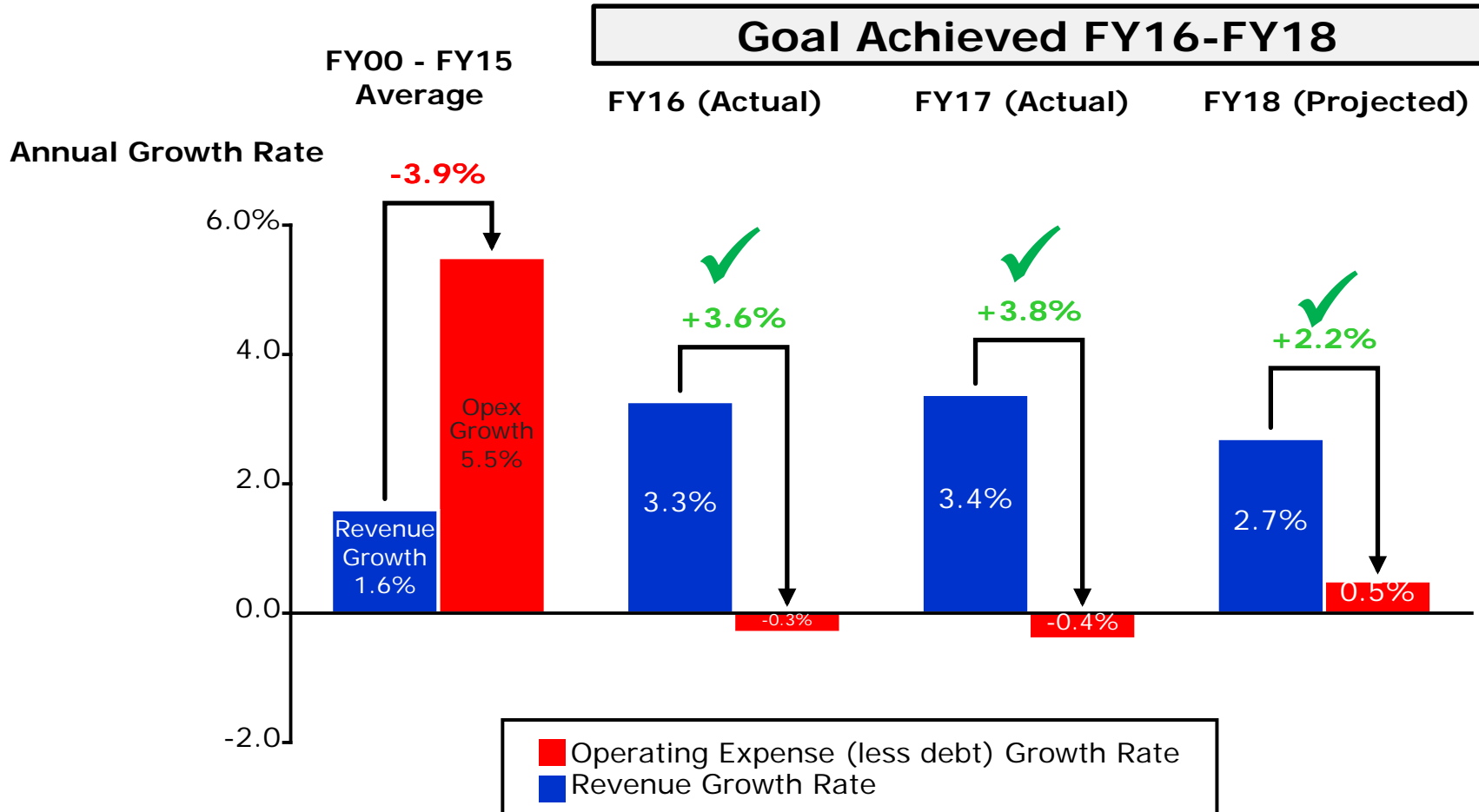


Note: For comparative purposes, FY17 core operating expense growth excludes capital employees transferred in FY17.

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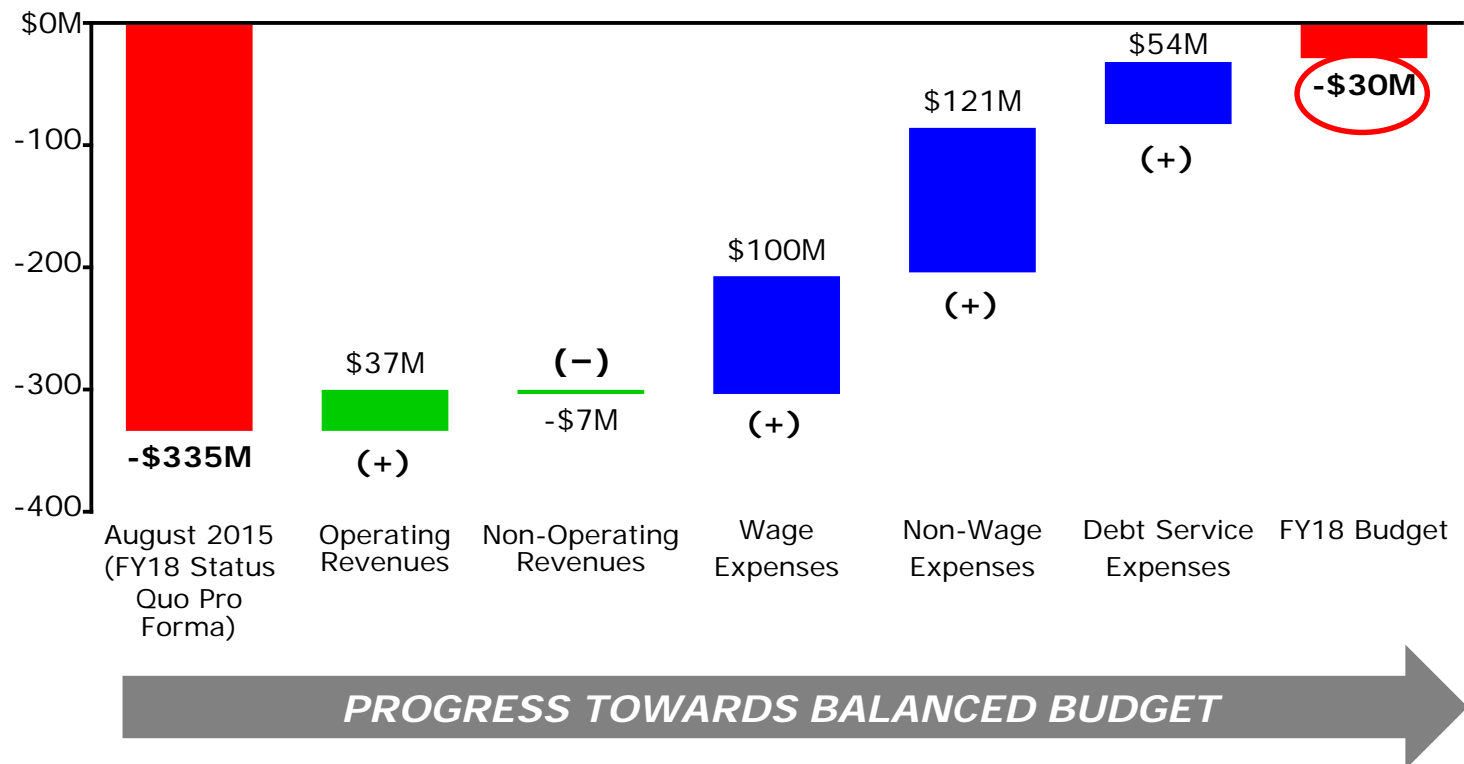
FMCB Goal: Annual Operating Expense Growth Rate Less Than Revenue Growth





FY18 budget another step towards fiscal sustainability

MBTA Structural Operating Deficit (FY18 Pro Forma vs. FY18 Budget)





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3. Debt Service Update

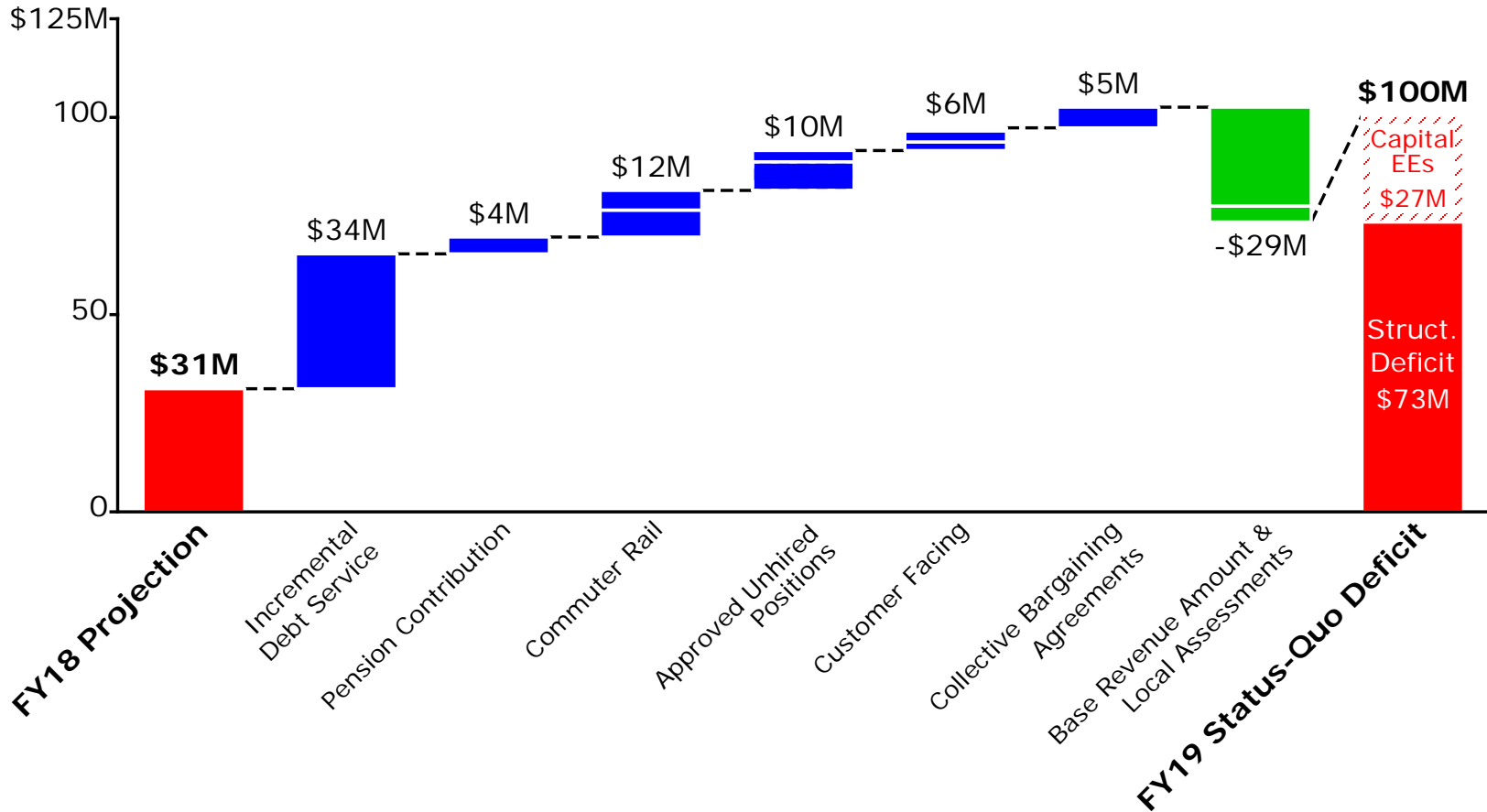
4. Additional Considerations

5. Appendix: FY18 Savings Initiatives Update



FY19 structural deficit increases \$98M, net of \$29M increase in Dedicated Revenues (i.e., Base Revenue Amount & Local Assessments)

Structural Deficit Bridge



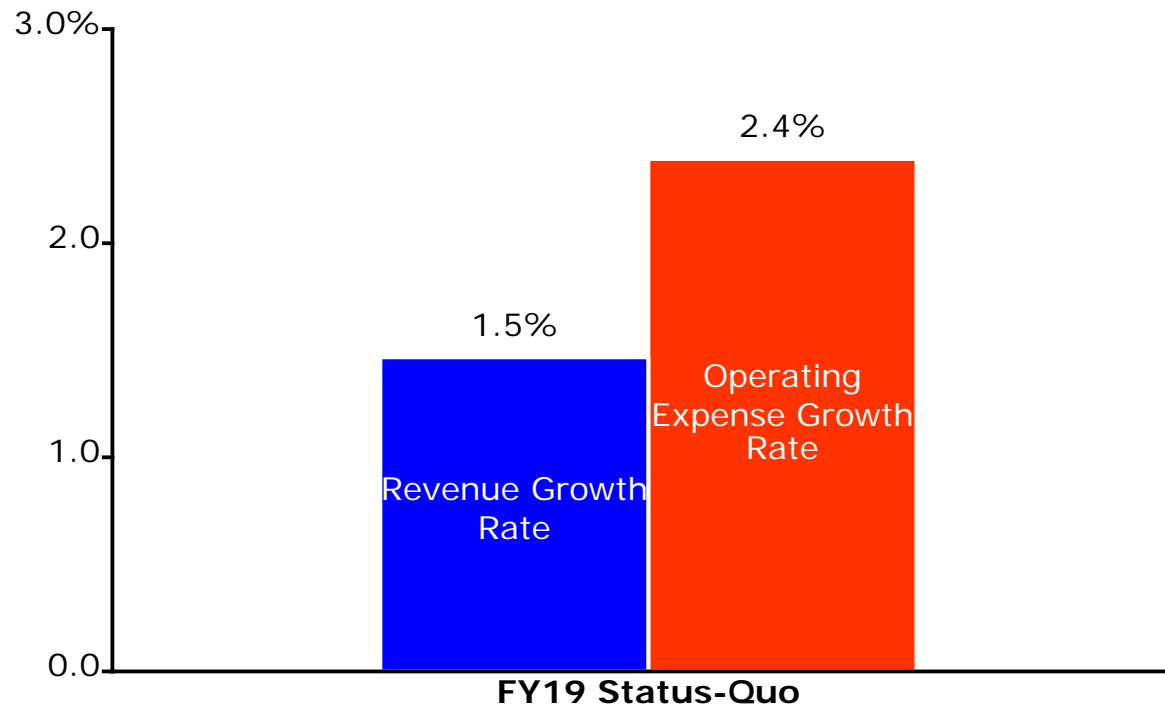
* FY18P comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results

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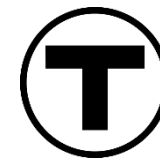


FY19 Status-Quo Operating Expense Growth Rate Exceeds Revenue Growth Rate Based on the Status-Quo Budget Assumptions

Annual Growth Rate



Notes: FY19 Status-Quo Revenues are defined as FY18 Projection plus statutory increases to BRA & Local Assessments
FY19 Status-Quo Operating Expenses are defined as FY18 Operating Expenses (less debt service) plus \$37M of contractual structural increases; excluding \$34M incremental debt service costs and \$27M relating to the transfer of capital employees to the operating budget



FY19 Budget Initiatives – Revenue

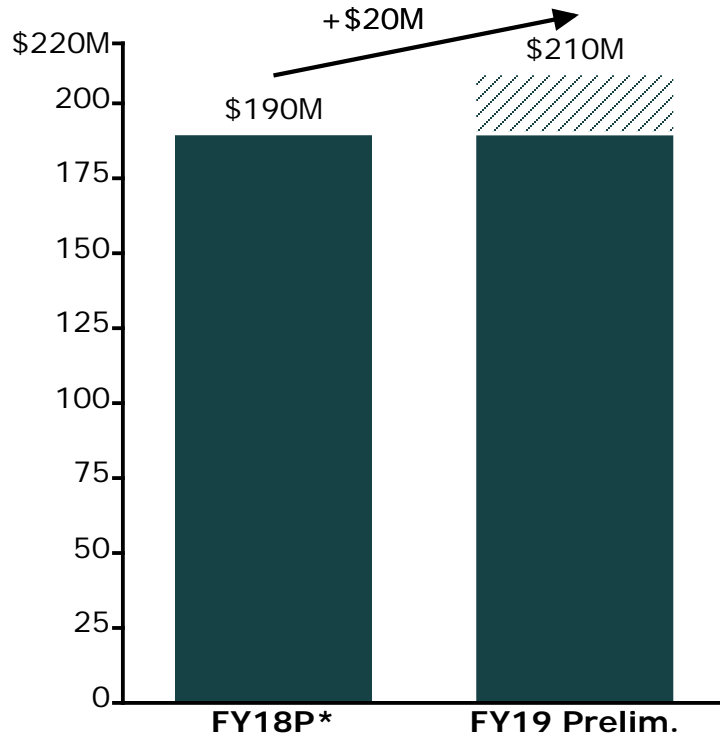
TYPE	OPTION	DESCRIPTION	FY19 EST.	Deficit Impact
Committed (Revenue)	Expansion of Corporate Pass Program	Drive awareness and actions for Corporate Program (\$190M revenue base) through increased advertising and collateral development with \$400k investment	\$10M - \$20M	↓
Pending FMCB Discussion (Revenue)	Parking Revenue Program	Introduce new rate structures: System-Wide Repricing – Flat Increase, System-Wide Repricing– Occupancy, Increase Mailed Citation Surcharge, Event Pricing & Premium Rates	\$1M - \$12M	↓
Not Recommended in FY19	Potential Fare Increase (Jan19)	As part of the FY19 budget making process, the FMCB must consider every opportunity to produce savings and grow the MBTA's own source revenue including a fare increase; any decision for a fare increase would involve a public involvement process and equity analysis	\$12M – \$15M	↓



Expansion of Corporate Pass Program

CORPORATE PASS REVENUE

Corporate Program Revenue
(FY18P - FY19 Preliminary)



FY19 OPPORTUNITY

1. Potential to increase Corporate Pass revenue up to \$20M with focused investment (est. \$400K)
2. Improve the Experience for Customers
 - › Provide better information and collateral
 - › Rebrand to demonstrate value
 - › Develop improved products
3. Launch Integrated Sales and Marketing
 - › Dedicated staffing to drive customer service and outreach
 - › Robust advertising to talk about the real benefits
4. Partner with the Business Community
 - › Requires active participation from regional employers and Chambers
5. Cannibalization risk to "pay-as-you-go" revenue

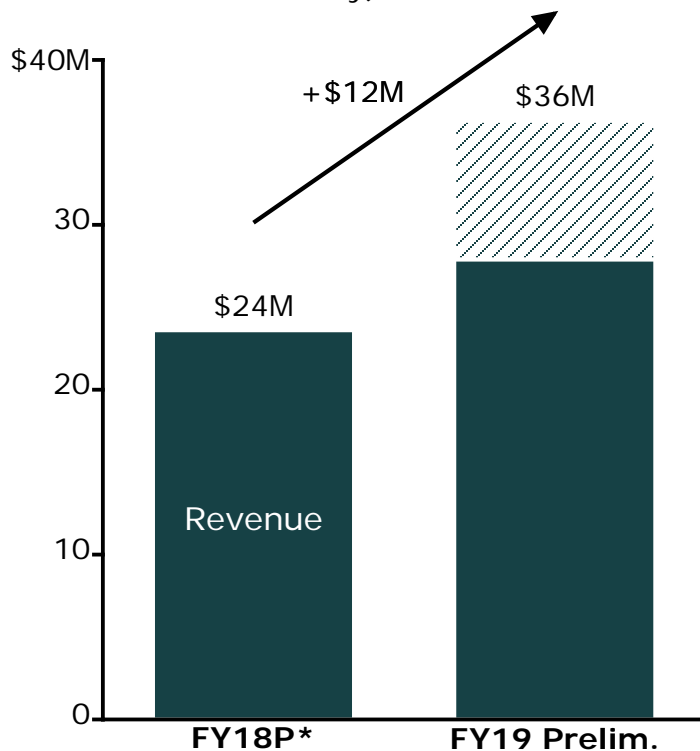
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Parking Revenue Program

PARKING REVENUE

Parking Revenue
(FY18P - FY19 Preliminary)



FY19 OPPORTUNITY

- FY18P* revenues at record highs; while Republic Parking expenses remain on budget
- Continue with capital improvements to transform the customer experience; greater facility automation and technology implementation (IT, collection, etc.)

FMCB choices on pricing policy (last increase FY08)

- **System-Wide Repricing, Flat Rate**
 - › Flat increase of \$1/day; total potential benefit up to \$5M (net) of additional parking revenue
- **System-Wide Repricing, Occupancy**
 - › Facility pricing based on occupancy; total potential benefit up to \$5M of additional parking revenue
- **Increase Mailed Citation Charge**
 - › Increase surcharge by \$1.00 for mailed citations; total potential benefit up to \$1M of additional parking revenue
- **Event Pricing & Premium Rates**
 - › Event-based pricing and expand premium space program; total potential benefit up to \$1M of additional parking revenue

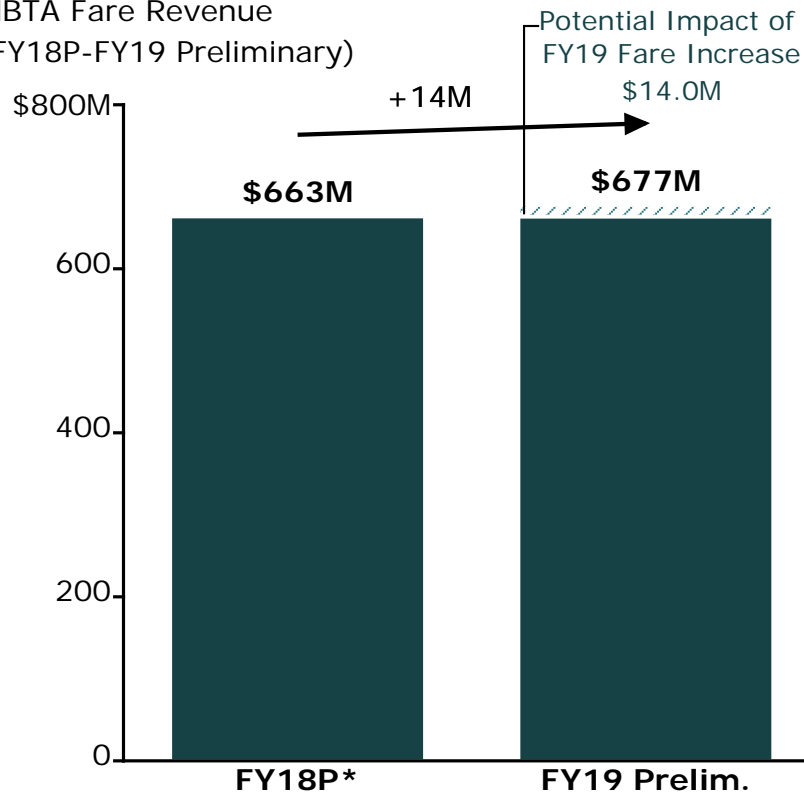
* FY18P comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results



Fare revenue projected to be stable from FY18 to FY19 without Fare increase in Jan19

TRANSPORTATION REVENUE

MBTA Fare Revenue
(FY18P-FY19 Preliminary)



FUTURE FARE CONSIDERATIONS

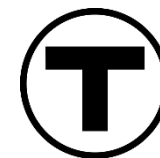
Legal and FMCB Background

- FMCB voted a overall fare increase of 9.3% effective July 1, 2016 (i.e., FY17 fare increase)
- As part of the FY17 fare increase vote, FMCB voted to postpone the next fare increase until at least January 1, 2019
- *"Acts of 2016, Chapter 164" permit MBTA to raise fares once every 2 years at a maximum of 7% on each fare product*

FY19 Considerations

- As part of the FY19 budget making process, the FMCB must consider every opportunity to produce savings and grow the MBTA's own source revenue. Includes: advertising, real estate, and a fare increase, only after other options have been exhausted
- Any decision for a fare increase would involve a public involvement process and equity analysis
- Any potential fare increase would **not** be implemented before January 1, 2019
- Jan19 fare increase projects to generate \$12M to \$15M in additional revenue

* FY18P comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results



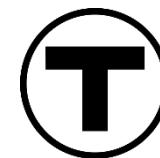
FY19 Budget Initiatives – Cost Savings

TYPE	OPTION	DESCRIPTION	FY19 EST.	Deficit Impact
Committed (Savings)	LEAN Strategy/ Initiatives	The impact of this multi-pronged program will be improved quality, productivity, employee engagement as well as decreased costs	TBD	↓
	RIDE On-Demand Pilot Uber/Lyft	Pilot amendments should include: 1) Increase cost per trip; 2) Require ridesharing to match RIDE practices; 3) Simplify and increase pilot trips and 4) Integrate pilot into TRAC	\$1M	↓
Pending FMCB Discussion (Savings)	Voluntary Retirement Incentive Program (VRIP)	Implement a VRIP plan for retirement-eligible employees similar to the plan offered in FY17; net result was reduction of 180 positions	\$10M – \$20M	↓
	Capital Employee Transfer	Treatment of budgeted Capital Delivery headcount in the FY19 budget (i.e., favorable treatment requires legislative relief)	\$27M	↓
	Expiring Union CBAs	Renegotiate 12 collective bargaining agreements expiring in FY18 (6) & FY19 (6)	TBD	↓



LEAN Strategy/Initiatives

- In FY18, the MBTA stood up a continuous improvement program, intended to drive **lean and efficient operations**
 - The impact of this multi-pronged program will be **improved quality, productivity, employee engagement** as well as **decreased costs**
- The **projected FY19 financial targets** set with input from FMCB will be driven by more efficient usage of materials & services and vacancies made redundant due to increased productivity
 - The projected savings **will be included in the FY19 budget** presented on March 12, 2018
- Finally, in order to ensure **accountability and accuracy of impact**, the Lean Team is embedding metrics into all Lean projects, and standing up departmental KPIs



LEAN Strategy/Initiatives: Savings Targets

DEPARTMENT	FY17 ACTUAL	FY18 PROJECTION*	FY19 SAVING TARGET	FY19 BUDGET
1) Bus Operations (Operators & Maintenance)	\$223M	\$222M	?	TBD
2) Commuter Rail Supervision	\$5M	\$4M	?	TBD
3) Everett Main Repair	\$36M	\$31M	?	TBD
4) Rail Operations & Maintenance	\$264M	\$258M	?	TBD
5) Transit Facilities Maintenance	\$40M	\$41M	?	TBD
6) Administrative/Support**	\$67M	\$71M	?	TBD
Total Savings			\$30M	

Note: FY18 Projection comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results

** FY18 Projection for Administrative/Support increasing due to expiration of Jet Fuel credits



RIDE On-Demand Pilot with Uber and Lyft

➤ **Proposed Updates:**

- Increase cost per trip to match RIDE premium fare
- Require ridesharing to match RIDE practices
- Simplify and increase pilot trips allocations per month
- Integrate pilot into TRAC

➤ **Immediate Benefits:**

- Aligns pilot structure to existing RIDE policies
- Addresses main concern of pilot customers – desire for additional pilot trips
- Increases potential savings
- Allows RIDE to continue piloting and testing to inform future service provider procurement design

➤ **Annual Potential Savings:**

- \$1M in FY19
- \$2M yearly beyond FY19 once fully implemented



Voluntary Retirement Incentive Program

Voluntary Retirement Incentive Program (VRIP) goal to reduce FY19 and future operating expenses and re-align headcount with core operating mission

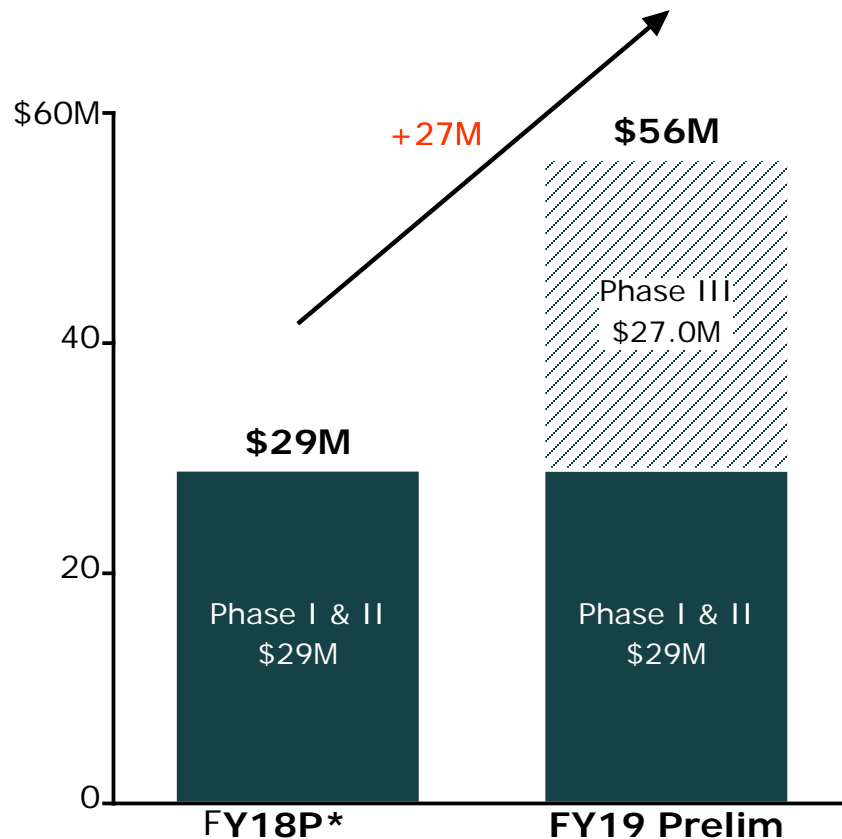
Preliminary VRIP Program

- › Program would only be available to current retirement eligible employees (approximately 675 employees)
- › Program mirrors successful FY17 VRIP Program
 - » FY17 Program resulted in net headcount reduction of 180
 - » Limited backfill to “key” positions determined by senior operations team
 - » MBTA annual savings from FY17 Program is approximately \$17M
- › Preliminary annual savings estimate between \$10M and \$20M



Capital Employee Transfer: Pending legislative modification, MBTA to complete Phase III transfer of capital employees in FY19

Capital Employee Transfer
(FY18P to FY19 Preliminary Expense)



FY19 Operating Budget Challenges:

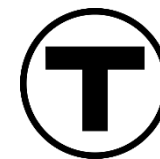
- Legislative mandate to transfer all capital employee wage costs to operating budget by FY19
- Management identified and transferred 312 capital employees to operating budget in FY17 (i.e., Phase I & II)
- Phase III employees work focuses on capital delivery (i.e., building or extending the life of MBTA assets)
 - Outside Section in House 2 FY19 would permit MBTA to keep Phase III employees on the capital budget, if passed
- \$27M negative impact to operating budget, if not passed

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FY19 Budget Initiatives – New Committed Service Enhancements

TYPE	OPTION	DESCRIPTION	FY19 EST.	Deficit Impact
Committed (Costs)	Chelsea Silver Line Gateway	Bus rapid transit connecting Chelsea and East Boston (via Blue Line's Airport Station) with South Station and Seaport District in Boston	\$2M (\$3M in FY18)	↑
	Early Morning Service (Pilot)	Adds additional earlier trips on crowded first trips of the day on 10 bus routes	\$1M	↑
	Foxborough Commuter Rail (Pilot)	Full-time rail service from Gillette Stadium to South Station by way of the Fairmount Line	\$1M	↑
	Bus Service Project (Policy & Oversight)	Resources to support (1) coordination between capital delivery, government affairs, and operations and (2) vendor oversight	\$0.5M	↑
	Customer Experience/ Communications	Increased focus on customer experience and communication. Hire Chief Customer Experience Officer, additional staff and technology	\$5M	↑
	OSHA Program Implementation	Employee Training and Capital Investments including resources to assist with project management, oversight and administration	\$5M – \$10M	↑



Chelsea Silver Line Gateway

FINANCIAL UPDATE

	<u>FY18P*</u>	<u>FY19**</u>
Service Expansion Costs	\$3M	\$5M

Implementation Status

- Hiring and training of additional bus operators began in January 2018
- Service starts in April 2018
- Additional costs will all be related to hiring and training of additional bus operators



*FY18P comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) budgeted results

** FY19 is the full year “run-rate” cost of the service



Early Morning Service Pilot

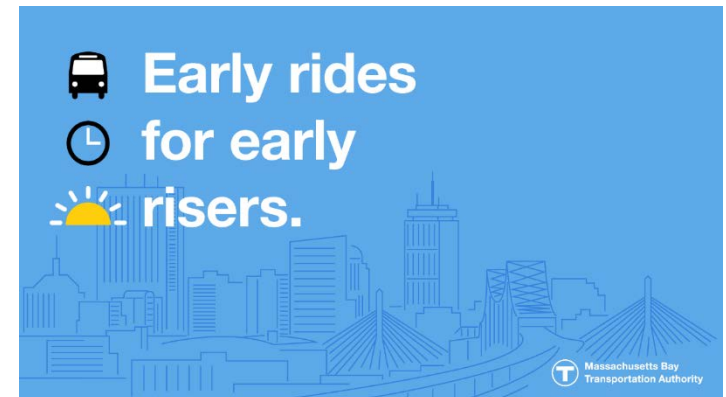
Starting April 1, 2018 new service will be added on 10 bus routes

Weekdays: 16, 19, 31, 32, 65, 70, 104, 109, 455

Saturdays: 109, 117, 455

Sundays: 31, 109, 455

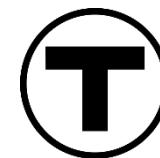
- The MBTA and the pilot sponsors have agreed on a set of performance measures to determine the success of the pilot
- The MBTA has retained a marketing firm to design a marketing strategy for all of our Early Morning service





Foxborough Commuter Rail (Pilot)

- **Operating Costs during Pilot Program duration (\$1M)**
 - Utilizes existing equipment; additional costs associated with crew and fuel only
 - Base Crew (Engineer, Conductor, A/C): \$700K per year
 - Fuel: \$300K per year
- **Estimated Subsidy per Passenger**
 - Annualized ridership – 59,400
 - Subsidy per passenger - \$9.07 (actual)



FY19 Budget Initiatives – Bus Service Project

INITIATIVE	TOTAL COST	HEADCOUNT INCREASE	PROPOSED BENEFITS
Bus Diversion and Temporary Planning and Logistics	\$0.3M	2	Coordination with Capital Delivery, Government Affairs, Operations and Communications on bus diversions provided by third party vendors. Oversight of vendor and management of contract
Deputy of Service Planning and Strategy	\$0.1M	1	Daily operation support in service planning and strategy focused on overseeing communications and workflow related to service planning, scheduling, workforce planning, workforce modernization and operations
Community Outreach	\$0.1M	1	Short and long term planning support, focused on community engagement and outreach
TOTAL	\$0.5M	4	



Workplace Safety Improvement Initiative and OSHA

- **Occupational Health & Safety Plan**
 - GM approved – February 1, 2018
- **Initiative Development**
 - Electrical Safety
 - Confined Space
 - Fall Protection
 - Fire Life Safety/Emergency Egress
 - Facility & Workplace Inspections
 - Hazard Awareness Training
 - Personal Protective Equipment
 - Employee Injury Investigations
 - Winter Storm Occupational Safety
- **Safety improvements will require new investments**
 - Employee Training and Capital Investments
 - \$5M to \$10M Operating Budget investment required in FY19
- **Act to Further Define Standards of Employee Safety**
 - Proposed implementation date of February 1, 2019





FY19 Budget Initiatives – Proposed New Service Enhancements

TYPE	OPTION	DESCRIPTION	FY19 EST.	Deficit Impact
Pending FMCB Discussion (Expense)	Late-Night Bus Service (Pilot Pending)	Vehicles, drivers and supervision to create additional service for MBTA bus customers	\$2M	↑
	Commuter Rail Locomotive Lease (5 Locos for 4 Years)	Through a partnership, 5 locomotives are available to Commuter Rail for a 4 year, short-term lease, with two 1-year options; price includes maintenance	\$3M	↑
	Additional Bus Operators	Increased headcount to cover insufficient run-time, recovery, contractually provided leave time (vacation and absences)	\$8M	↑
	Rush-Hour Service Improvements (E&M)	Increased Reliability for Emergency Responses that impact the safety of the public, MBTA customers, or MBTA workforce, specifically during rush-hour	\$2M	↑
	Asset Management (E&M)	Mechanical, civil, track, electrical, structural engineers to support capital projects by the Asset Planning and Training team	\$1M	↑
	Quality Assurance (E&M)	Improved Quality Assurance of departmental testing and inspection of critical infrastructure	\$2M	↑



Late Night Service Pilot Proposal

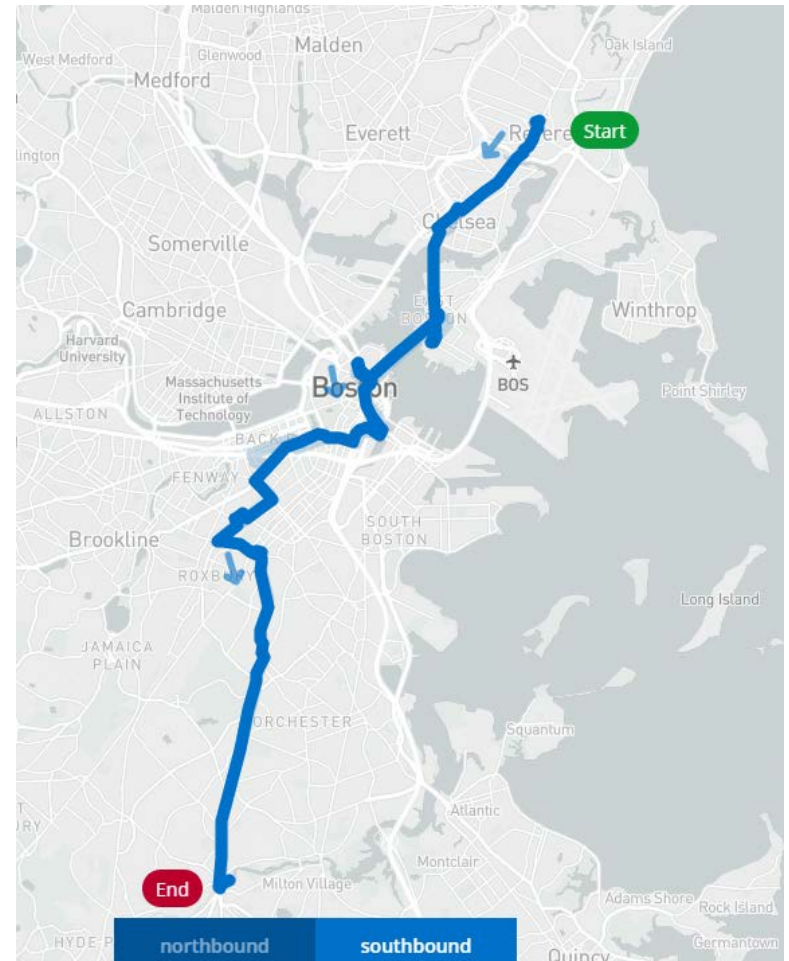
The MBTA did not receive any responsive bids to the RFR to operate a single overnight route

The estimate for the MBTA to operate the proposed route is approximately \$2 million in operating costs (including The RIDE)

- 30 minute headways
- From 1am-4:15am everyday of the week
- Estimate of 75,000 passengers trips annually

Any additional MBTA operated service could start in the Fall 2018 rating at the earliest

Management evaluating alternative solutions





Commuter Rail Locomotive Lease

- **Proposed lease details:**
 - 5 new locomotives readily available
 - 4-year lease, with two 1-year options

- **Immediate benefits of locomotive lease:**
 - Improved locomotive fleet performance and reliability
 - Reduced emissions and fuel consumption
 - Improved safety features
 - Modern technology, similar to HSP46 locomotives
 - Benefit of lessons learned from other agencies already testing locomotives in revenue service

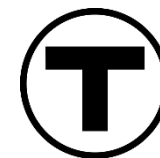
- **Annual lease and maintenance costs:**
 - Years 1-2: \$3M
 - Years 3-6: \$4M



Additional Bus Operators driving by Service Planning

INITIATIVE	TOTAL COST	HEADCOUNT INCREASE	PROPOSED BENEFITS
Travel Time	\$1M	17	Accommodate scheduled travel time
Reduce Dropped Trips and Overtime due to Short Term Absence & Vacation Coverage	\$3.4M	51	Overtime projected to drop by \$2 million and dropped trips are estimated to decrease by 50% (or about 500 trips per week)
Improve On-Time Performance	\$3.6	55	OTP is estimated to improve from 67% (Calendar Year 2017) to 72%
TOTAL	\$8M	123	

Note: Assumes \$45k/year salary and 50% benefits load for a newly hired Bus Operator



Key Department Initiatives – E&M

INITIATIVE	TOTAL COST	HEADCOUNT INCREASE	PROPOSED BENEFITS
Rush-Hour Service Improvement	\$2M	24	<p>Increased Reliability for Emergency Responses that impact the safety of the public, MBTA customers, or MBTA workforce</p> <p>5 Emergency Response Crews</p> <ul style="list-style-type: none"> - 1 Signals - 1 Facilities - 1 Track - 1 Power Line - 1 Electrical Service
Asset Management	\$1M	6	<p>Accelerate and improve asset condition collection to support asset investment planning, and meet FTA MAP 21 asset reporting requirements</p>
Quality Assurance	\$2M	15	<p>Improve Quality Assurance of Departmental testing and inspection of critical assets and address DPU Corrective Action Plan to improve E&M Safety Rules Compliance (centralized and documented QA program)</p>
TOTAL	\$5M	45	



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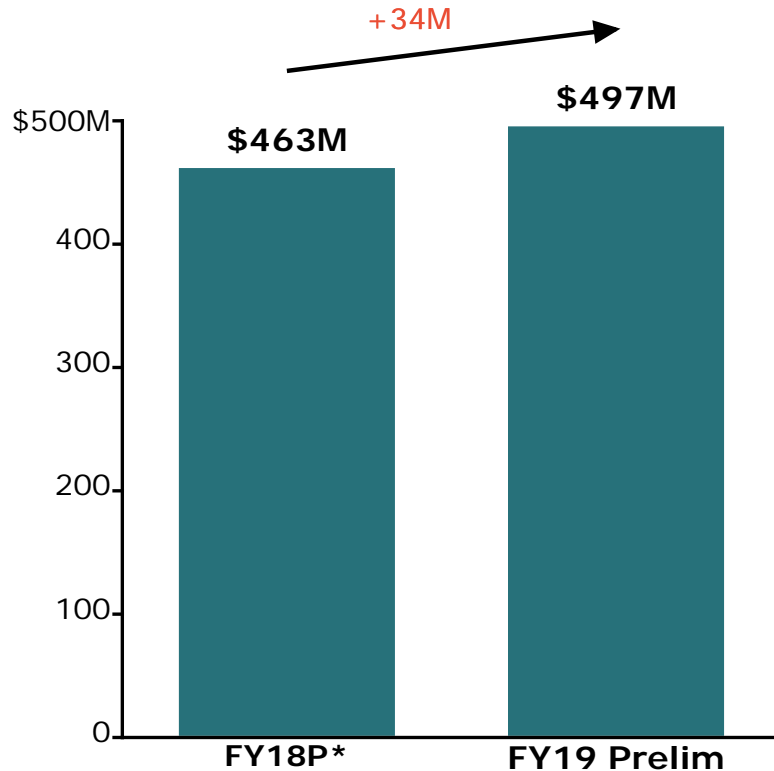
5. Appendix: FY18 Savings Initiatives Update



Scheduled principal repayment increases in Fiscal 2019

INCREMENTAL DEBT SERVICE

Debt Service
(FY18* to FY19 Preliminary)



KEY DRIVERS

- Principal repayment schedule dictates an increased debt service payment totaling \$34M in FY19
- Increases mandated by MBTA Debt Policy (Jun16)
 - › Requires level repayment of principal consistent with useful life of capital investments
 - › No deferring obligations to future periods
- Treasury issuance occurred earlier in FY18 than anticipated due to ambitious CIP
 - › Locked in low long-term borrowing costs
 - › Interest rates increased meaningfully since issuance
- Obligations pulled forward to FY18 to provide relief in future years

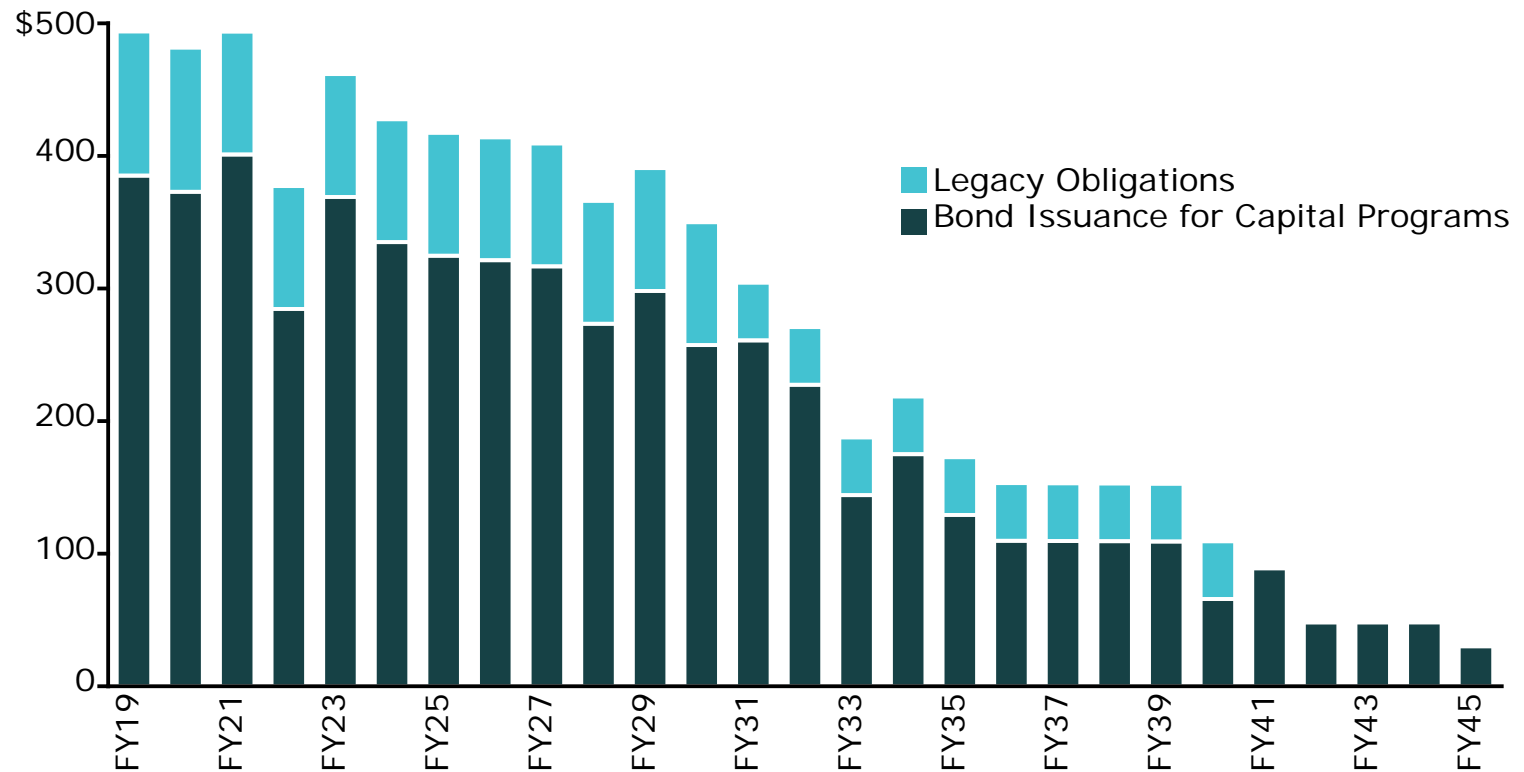
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Annual Debt Service: Legacy Debt Paid down by FY40

Annual Debt Service (Principal & Interest)
(millions)

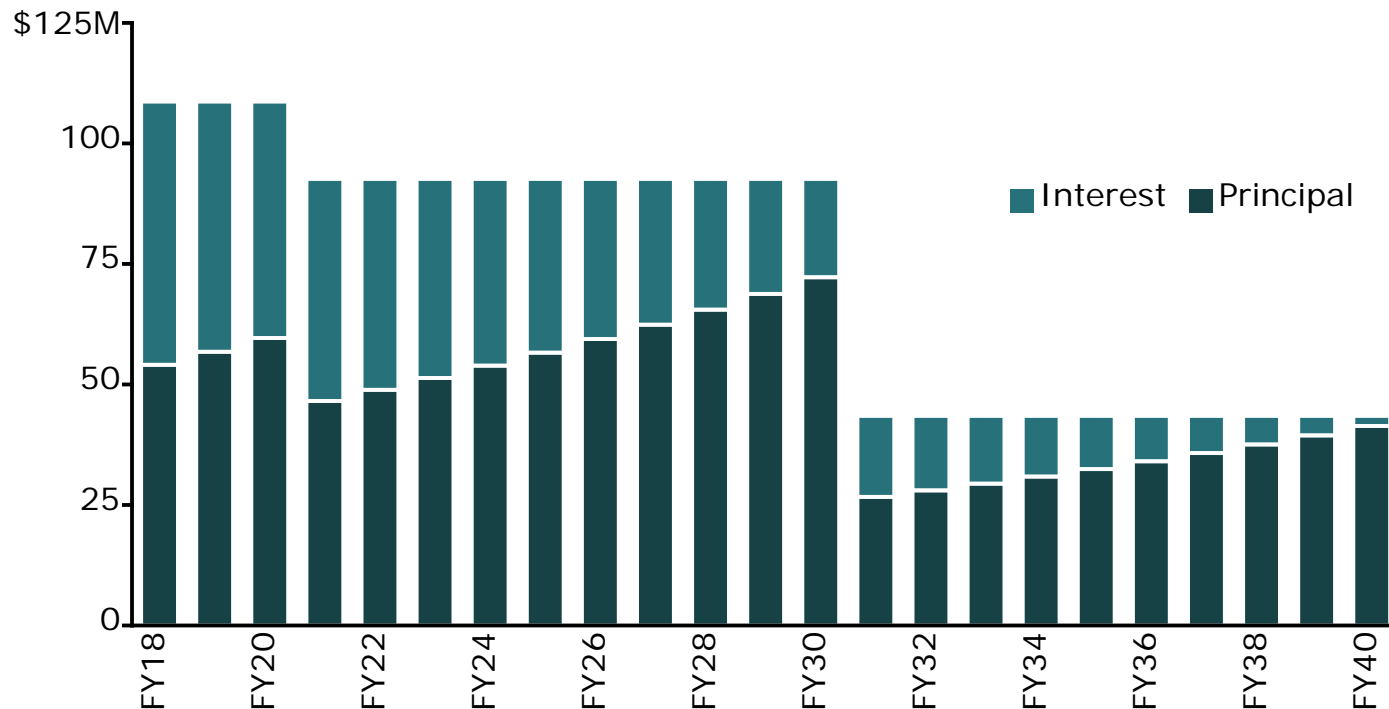




Legacy Debt Service

MBTA will payoff 'Legacy' debt in FY40

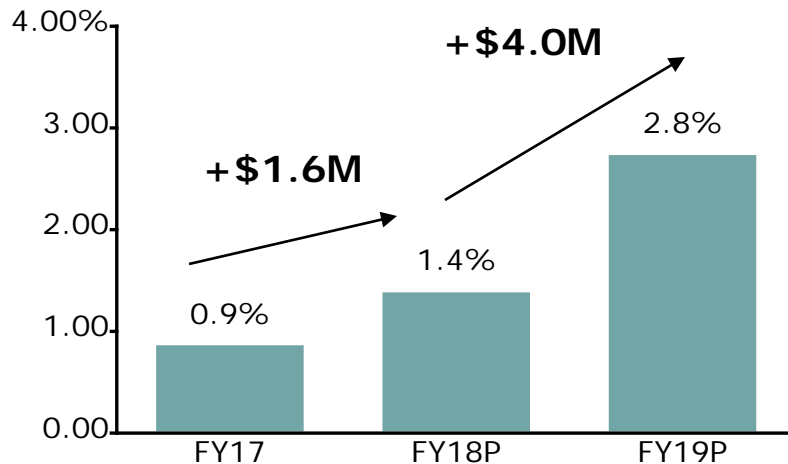
Annual Legacy Debt Service
(millions)





Investment Income: Continues to trend higher in FY19

INVESTMENT RETURN



TREASURY INITIATIVES

- Treasury Department aggressively negotiated new commercial banking contracts
 - Short term cash linked to variable interest rates which increase with Federal Reserve rate hikes
- New investment policy gives Treasury Department latitude to increase returns without taking additional risk
 - Investment activity brought in-house to reduce expenses and increase returns
- Enhanced investment income to translate to incremental \$4M in FY19
- Variable interest rate exposure (debt) more than offset by "natural" short-term investment position



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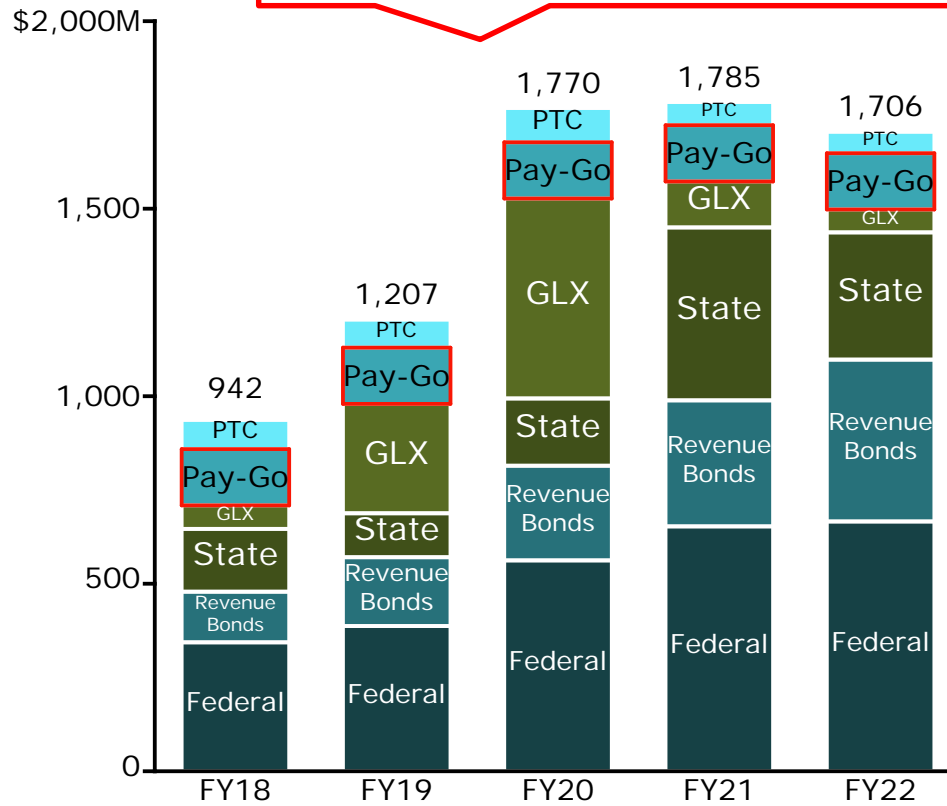


Pay-go funding is an important funding source in the MBTA Five Year Capital Investment Plan (CIP)

Annual Funding (\$M)

Pay-go funded projects include:

- \$300M for track, signal, and power improvements
- \$82M for project design and development
- \$64M for Commuter Rail track and right-of-way improvements



PROJECTED

5-Year Totals % of Total

Reimbursable	\$9M	0.1%
PTC	\$365M	4.9%
Pay-Go	\$750M	10.1%
GLX	\$1,071M	14.5%
State	\$1,264M	17.1%
Revenue Bonds	\$1,339M	18.1%
Federal	\$2,612M	35.3%



Cost controls made \$157M available for capital investment in FY17

FY17 Budget Appropriation: Additional Assistance from Commonwealth

\$187M

USES

- Direct transfer to fund CIP initiatives \$47M
- Investment in customer-facing “pay-go” capital initiatives \$43M
- Operating budget savings investments in capital* \$67M

\$157M

- **Fund Operating Structural Deficit \$30M**

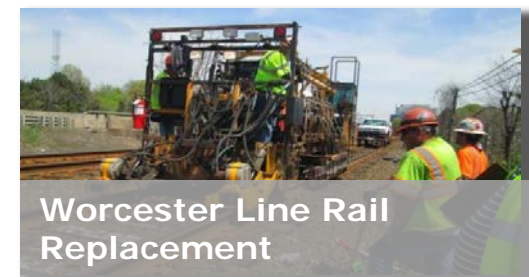
EXAMPLES



Red Line No. 3 Cars



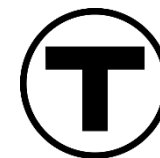
Lynn Parking Garage



Worcester Line Rail Replacement

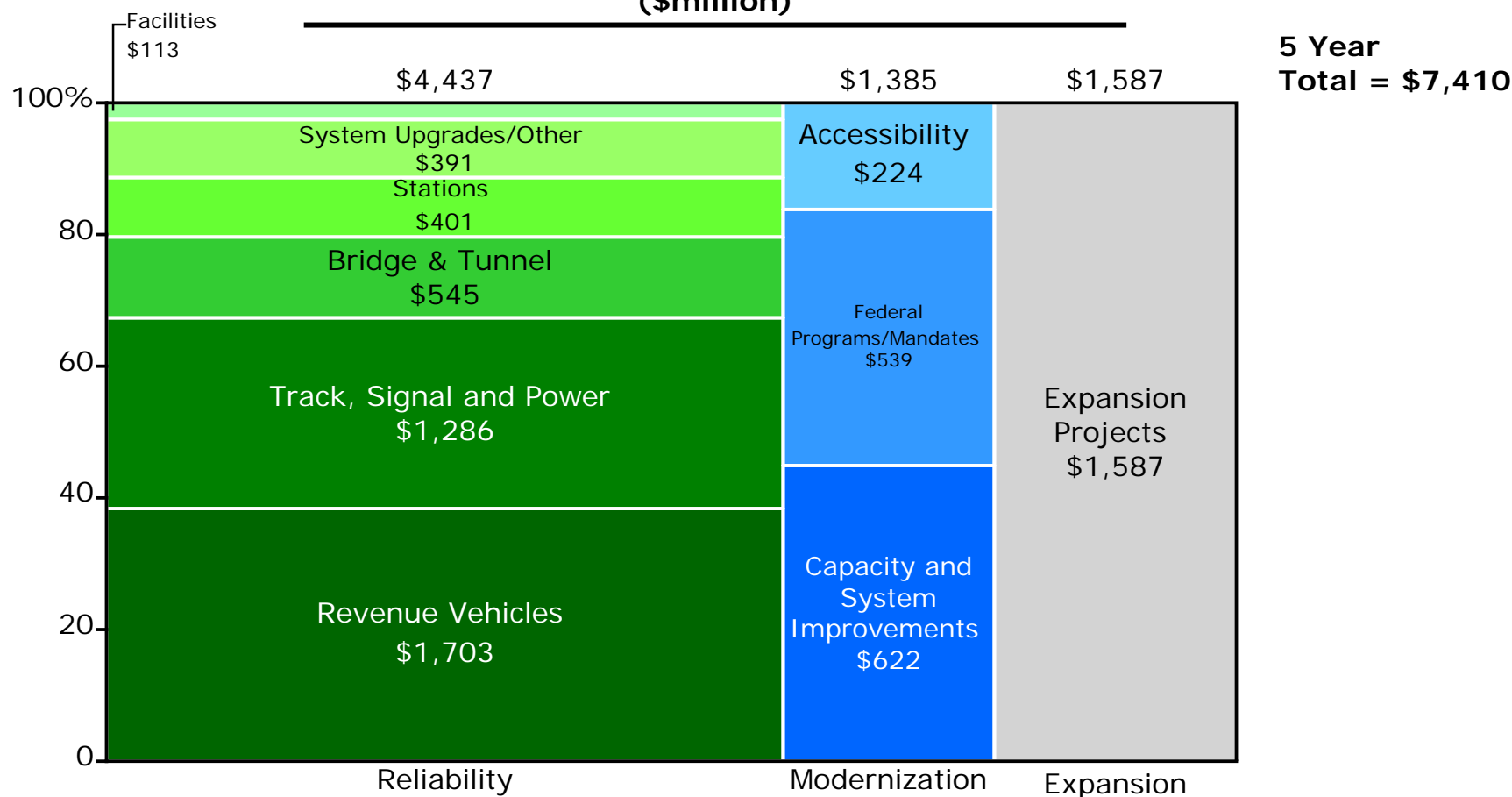
*Includes transfers to capital lockbox fund, capital maintenance fund, and deficiency fund

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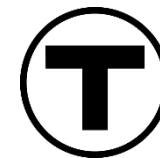
An ambitious FY18-FY22 Capital Investment Plan calls for \$7.4B in capital spending over the next 5 years*

FY18-22 CIP Spending by Priority and Program (\$million)



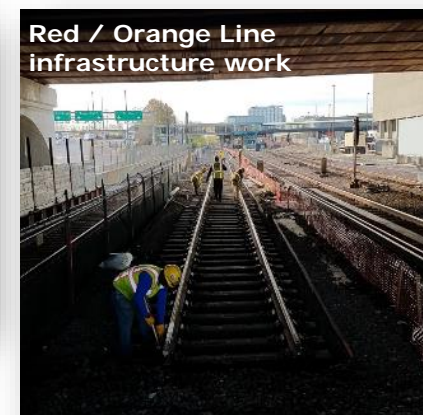
*MBTA / MassDOT CIP approved by joint MassDOT / FMCB board on June 19th, 2017.

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FY19 – Major projects with a significant operating impact:

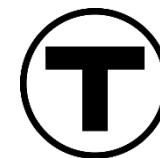
Project	Budget	Operations Resources Required
Red / Orange Line Infrastructure Improvements	\$465M	<ul style="list-style-type: none"> • MBTA track / signal engineers • MBTA & Keolis flagging • Busing (diversions)
Positive Train Control	\$459M	<ul style="list-style-type: none"> • Busing (diversions) • Keolis flaggers, signalmen, power personnel, and train crews
Wollaston Station	\$76M	<ul style="list-style-type: none"> • Busing (diversions)
Gloucester Drawbridge Replacement	\$84M	<ul style="list-style-type: none"> • Keolis flaggers and signalmen • Busing (diversions)
Green Line Signal Improvements	\$144M	<ul style="list-style-type: none"> • MBTA track / signal engineers





Agenda

1. Overview
2. FY19 Budget Initiatives
3. Debt Service Update
4. Additional Considerations
5. Appendix: FY18 Savings Initiatives Update



Several FY18 initiatives remain in process

(\$ Millions)

		FULL-YEAR RUN-RATE IMPACT	ESTIMATED FY18 IMPACT	ON TRACK?
	BASELINE STRUCTURAL DEFICIT	(\$42)	(\$42)	
INCLUDED IN FY18 ITEMIZED BUDGET	A. Hybrid In-Station Customer Service Model	\$6	\$6	x
	B. RFPs for 4 Garages* (Labor Renegotiations)	\$11		
	C. Cabot Garage Efficiency	\$5	\$8	✓ / x
	D. Everett Bus Shop	\$5		
	E. Chelsea Silver Line	(\$5)	(\$3)	✓
	F. Strategic Operations Hires	(\$7)	(\$7)	✓ / x
	SUBTOTAL - Adjusted Structural Deficit	(\$27)	(\$38)	
FY18 DEFICIT SPENDING	G. The RIDE	\$3	\$1	x
	H. Commuter Rail	\$5	\$5	x
	I. CR Revenue Expansion and Advertising	\$4	\$2	x
	STRUCTURAL DEFICIT	(\$15)	(\$30)	x
TARGET PAY-GO TRANSFER AS OPEX SAVINGS ACHIEVED				
	(\$37M – STRUCTURAL DEFICIT)	\$22	\$7	

*RFPs were revised to include only 3 of the MBTA's 9 bus garages, instead of 4 (28% of bus fleet instead of 36%)

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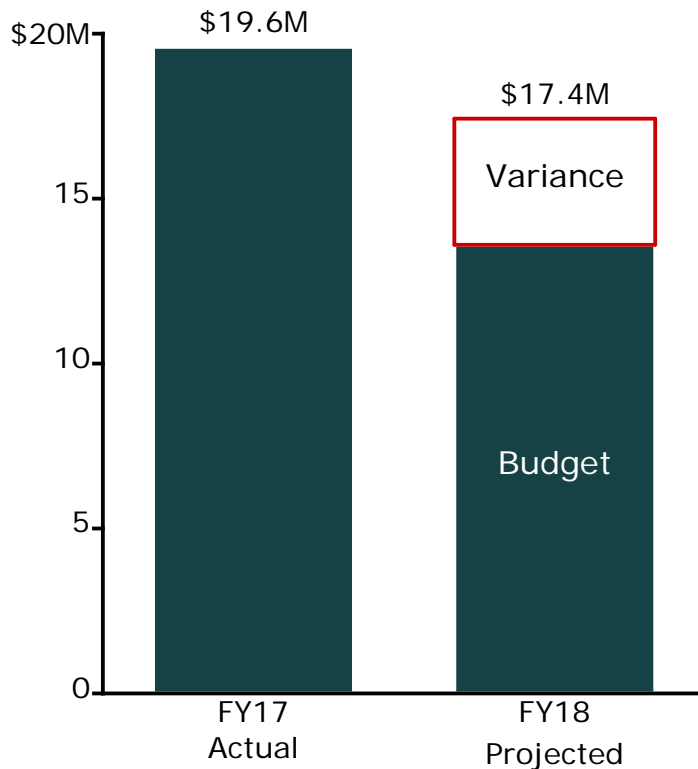


A. HYBRID IN-STATION CUSTOMER SERVICE MODEL: Despite positive customer feedback, ~\$4M variance from FY18 savings target

CUSTOMER SERVICE AGENTS

FY18 UPDATE

Annual CSA Expense
FY17 & FY18P



Goal & FY18 Update:

- Improve quality and coverage of customer service in stations and enhance customer experience at a lower cost
- Projected to save \$2M compared to FY17 compared to FY18 run-rate goal of \$6M
- Fell short of FY18 savings target due to delays in transitioning CSAs to operator roles and higher-than-anticipated utilization of Block by Block staff
- Positive feedback from MTBA riders

FY19 Observations:

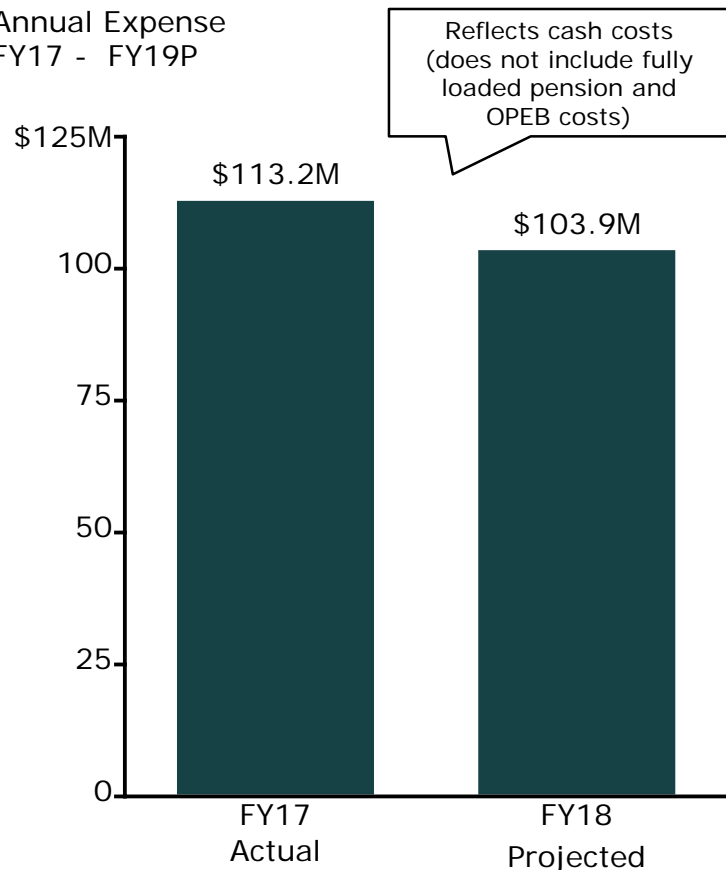
- Block by Block to expand station coverage in FY19
- Full-potential attrition of eligible CSAs into train operator roles will increase savings in FY19
- FY19 Budget anticipates annual savings of \$5M vs FY17 (\$1M short of run-rate goal)



B. BUS GARAGE RFPs AND LABOR: FY18 savings goal met via LEAN initiatives and labor agreement with L264

BUS MAINTENANCE COSTS*

Annual Expense
FY17 - FY19P



FY18 UPDATE

Goal & FY18 Update:

- Goal to achieve annual “run-rate” savings of \$11M using three strategies (\$8M in FY18):
 - › Internal management reforms
 - › Issue RFPs for 3 maintenance garages
 - › Labor renegotiations
- FY18 savings of \$9M short of total “run-rate” goal
 - › On track to meet “one-time” FY18 goal
- New collective bargaining agreements for L264
 - › Work rules and wage concessions
 - › Wage increase: 0% FY18 & 1.5% FY19
 - › In lieu of contracting out 3 bus maintenance garages

FY19 Observations:

- Management to rollout LEAN initiatives implemented in FY18 to all 9 bus maintenance garages
 - › Target sustainable run-rate savings of \$20M

*Figures include Everett Bus Shop, include fuel costs, and exclude non-revenue shops; includes cash fringe costs (not fully loaded)

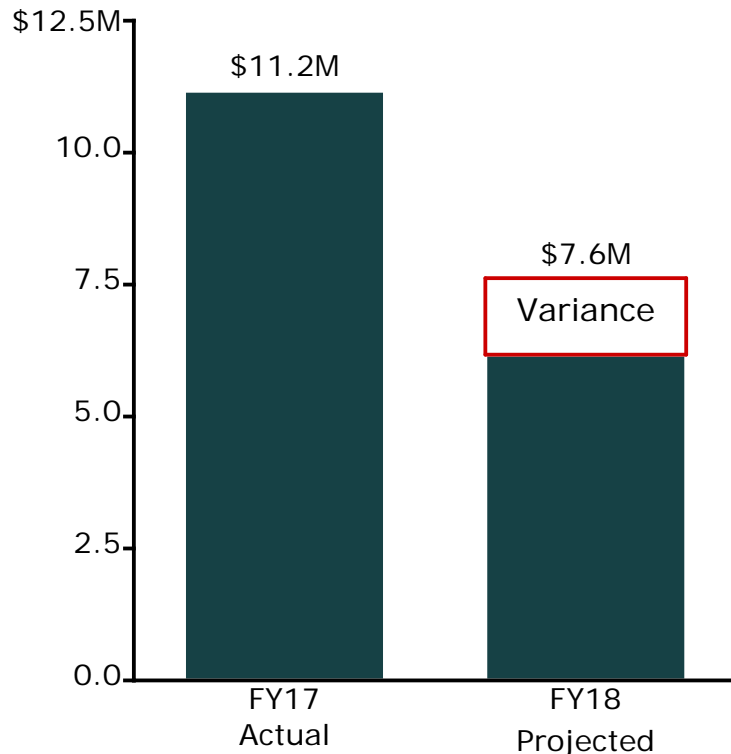
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C. CABOT GARAGE EFFICIENCY: On track to save \$3.5M in FY18 vs. FY17 (\$1.5M short of \$5M annual run-rate savings goal)

CABOT GARAGE *

Annual Expense
FY17 - FY19P



*Figures include cash fringe costs (not fully loaded)

FY18 UPDATE

Goal & FY18 Update:

- “Run-Rate” annual savings of \$5M at Cabot Garage
 - › Increased productivity
 - › Streamlined staffing model
 - › LEAN initiatives
- FY18 savings of \$3.5M is short “run-rate” goal of \$5M
 - › New Flyer fleet is new and under warranty in FY18
 - › \$1.7M decrease in materials, \$1M decrease in regular wages, \$0.4M decrease in overtime

FY19 Observations:

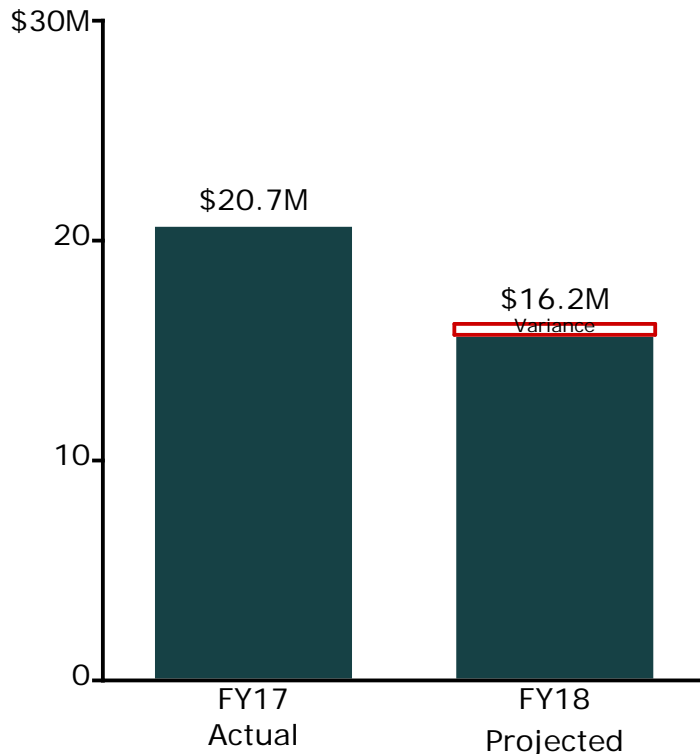
- Challenges to achieving and maintaining total “run-rate” savings of \$5M
- New Flyer bus fleet warranty expiring
 - › Results in offset to FY18 wages & materials savings



D. EVERETT BUS SHOP: Projected to save \$4.5M in FY18 vs. FY17 (\$0.5M short of annual run-rate goal)

EVERETT BUS SHOP*

Annual Expense
FY17 - FY19P



*Figures include cash fringe costs (not fully loaded)

FY18 UPDATE

Goal & FY18 Update:

- “Run-Rate” annual savings of \$5M at Everett Bus Shop
 - › Increased productivity
 - › Streamlined staffing model
 - › LEAN initiatives
- FY18 savings of \$4.5M is short “run-rate” goal of \$5M
 - › 46% reduction in materials costs
 - › 20% reduction in overtime, and 12% reduction in regular wages

FY19 Observations:

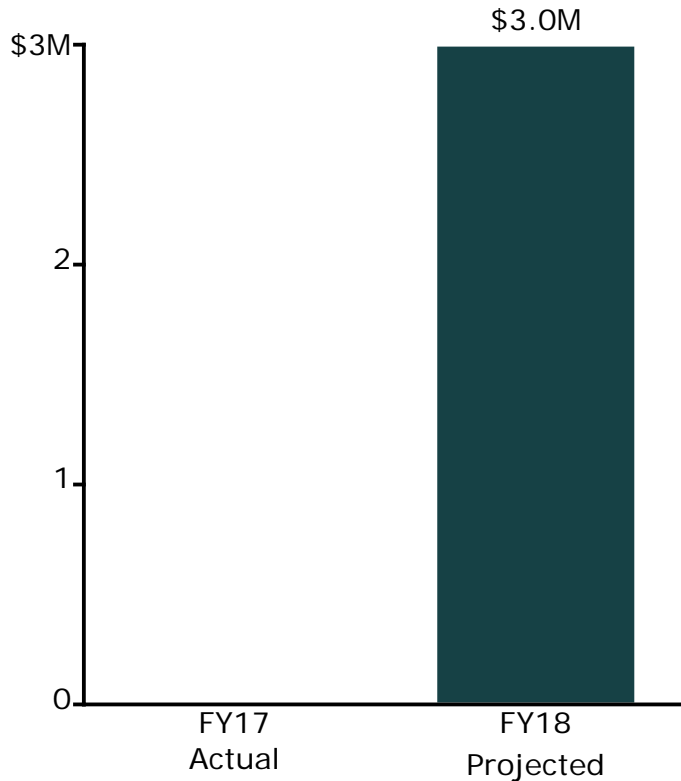
- Management to continue rolling out additional LEAN initiatives
 - › Achieve “run-rate” savings of \$5M identified in FY18 budget process
 - › Achieve additional “run-rate” savings of \$5M



E. CHELSEA SILVER LINE: Silver Line Gateway to begin in April (\$3M cost in FY18)

CHELSEA SILVER LINE

Annual Expense
FY17 - FY19P



FY18 UPDATE

Goal & FY18 Update:

- Additional cost of \$3M budgeted in FY18
 - › Run-rate annual cost of \$5M
 - › Service to begin April 21, 2018
 - › Hiring began in Jan18
- Costs driven primarily by additional bus operators to run the service

FY19 Observations:

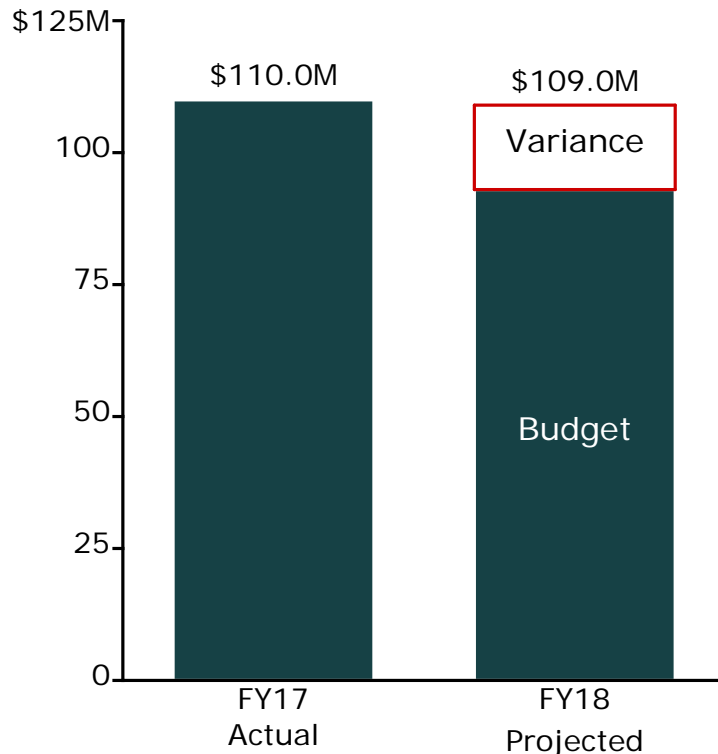
- FY19 budget will increase by \$2M to account for full-year impact of service expansion



G. THE RIDE: Projected to finish \$16M above budget; delayed savings and added costs associated with TRAC implementation

THE RIDE

Annual Expense
FY17 - FY19P



FY18 UPDATE

Goal & FY18 Update:

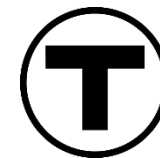
- Reduce budget from \$110M to \$93M via productivity improvements/cost synergies from introduction of TRAC and further savings from potential HST partnership
- Delays in TRAC integration and re-procurement of TRAC contractor have delayed savings and added costs
- Decreased ridership (service issues, pilot success, and public transit ridership trends) has reduced costs

FY19 Observations:

- | | |
|--|---|
| + Recovery of lost ridership | + Late night service pilot |
| + Contractual rate increases | - Increased productivity with TRAC functional and additional use of non-dedicated service providers |
| + Fuel cost increase | |
| + Expected contract value increase with new TRAC procurement | |

Note: Figures reflect LSS costs only and do not include OTA supervisory costs; includes cash fringe costs

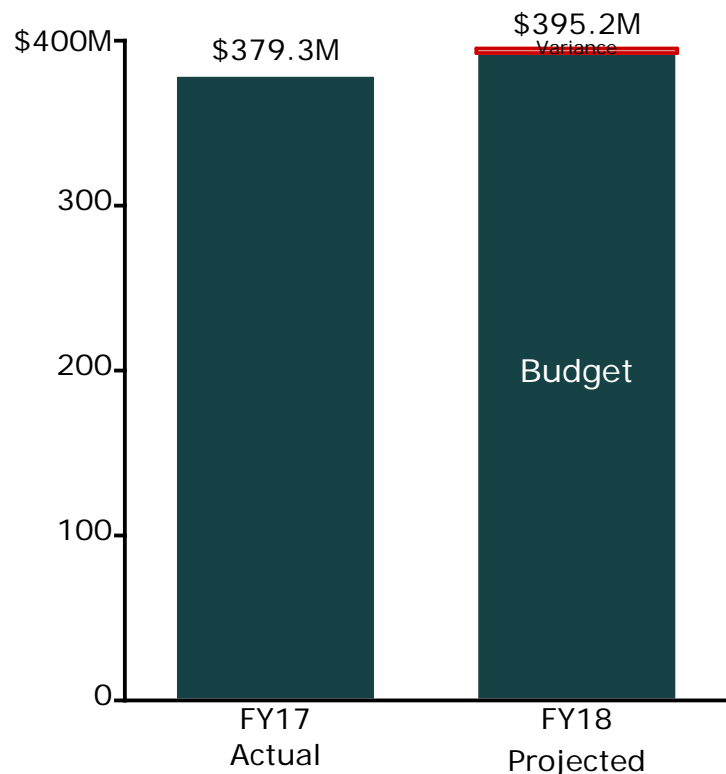
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H. COMMUTER RAIL: Commuter Rail projected to finish FY18 \$20M above annual run-rate goal

COMMUTER RAIL COSTS

Annual Expense*
FY17 - FY19P



FY18 UPDATE

Goal & FY18 Update:

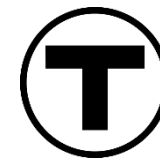
- FY18 FMCB set goal of reducing commuter rail costs by \$5M annually in both FY18 and on an annual run-rate basis
- Not on track to meet \$5M FY18 savings goal
- Costs projected to increase \$16M in FY18 compared to FY17
 - › \$6M FY18 fixed contract escalators (+2%)
 - › \$7M executed scope changes (+35%)

FY19 Observations:

- FY19 structural challenges
 - › \$7M FY19 fixed contract escalators (+2%)
 - › \$7M executed scope changes (+35%)

*Figures include both commuter rail subsidy and supervisory costs; includes cash fringe costs; excludes PRIIA

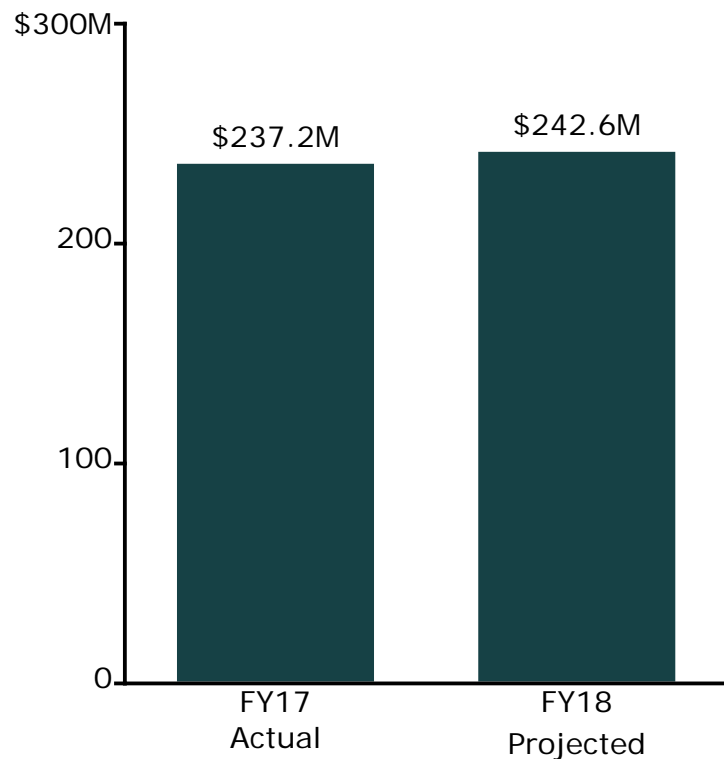
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I. COMMUTER RAIL : Advertising campaign not yet rolled out, revenue projected to exceed FY18 and annual run-rate goals

COMMUTER RAIL REVENUE

Annual Revenue
FY17 - FY19P



FY18 UPDATE

Goal & FY18 Update:

- Increase revenue on a “run-rate” by \$4M
 - › Keolis Revenue Share Agreement
 - › New advertising campaign
- New advertising policy approved by FMCB Nov17
- Commuter rail revenue projected to exceed FY18 goal
 - › Higher revenue attributed to ticket sales
 - › Sales & Marketing Board Established

FY19 Observations:

- Full-year impact of the new advertising campaign
- Continue to work with Keolis on improving fare enforcement and launching marketing campaigns